



As I sell

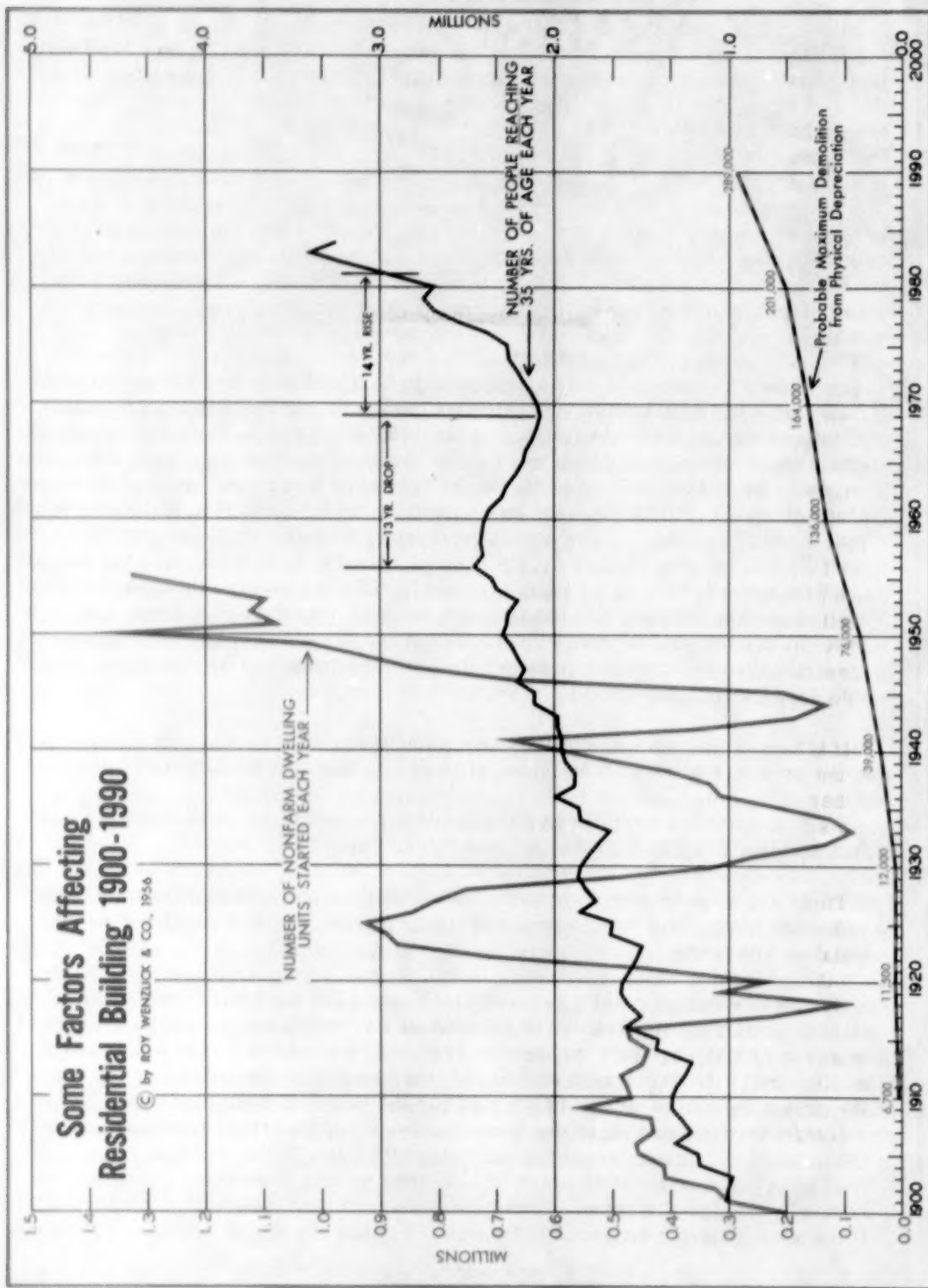
SOME FACTORS AFFECTING RESIDENTIAL BUILDING

LAST month, a splendid article appeared in BARRON'S, by Charles B. Reeder, associate economist with E. I. du Pont de Nemours and Co., Inc. In this article, Mr. Reeder questions whether the large number of persons reaching marriageable age in the 1960's is going to have the stimulating effect on home building which many of us have believed that it would. He points out that one often-overlooked factor is the age of home buyers; that a sample study of over 1 million GI loans guaranteed by the VA in 1954 and 1955 revealed that the median age of GI new home buyers was approximately 32 years; that less than 5% were under 25, and over 85% were between 25 and 40. He also pointed out that a similar study of FHA-insured mortgages in 1955 disclosed that the typical person buying a new house under the FHA plan was 34.6 years old. Approximately two-thirds were between 25 and 40. He also stated that fragmentary evidence suggests that nearly one-half of all new home buyers who finance their purchases with a conventional mortgage are even older.

I think Mr. Reeder has made a real point in his article, and one which should make serious students of the future of home building rethink some of their ideas.

Another splendid article on the demand for housing appeared in the May 1956 issue of BEST'S LIFE NEWS, written by Dr. Gordon W. McKinley, director of economic research for the Prudential Life Insurance Company of America. In this article he discusses in considerable detail the undoubling of families which has taken place, and the changes which will probably take place in the period of the next few years.

In an attempt to clarify my own thinking on the subject, I have charted on the following page the number of persons in the United States reaching 35 years of age in any given year from 1900 to 1984. This is shown by the solid blue line on the chart. It will be noticed that the line has constantly trended upward up to the present time. This would account for the fact that housing demand has remained unusually strong in the face of a declining marriage rate and a drop in the number of persons reaching marriageable age. If the average couple purchasing a house is about 35 years of age, then we can understand one of the reasons why the demand for new housing has seemed inexhaustible. Unfortunately, if the average buyer continues to be about 35 years of age, the number of persons



in this age group will show a constant decline during the next 13 years, and will then show an upward movement, increasing rapidly from 1975 to 1983. Insofar as the population picture goes, changing the age group interested in the purchase of homes from 20 to 35 years has the effect of turning an optimistic outlook to one that is rather pessimistic for the next 15 years. Of course, as Mr. Reeder points out in his article, the fact that marriages take place at an earlier age will increase the housing demand. This increase will probably be in the demand for rented units in which young couples generally spend the first few years of their married lives. Since these rented units are rather limited in number, and are not being produced at a rapid rate at the present time, this may indicate a very stabilizing factor on rental units during the 1960's. I have charted the number of new dwelling units started each year in red, for comparative purposes.

One other factor which will affect the future outlook for new construction is the rate of demolition of existing structures. I would like to suggest an approach to this problem which I have never seen used, but which I think has some validity. Studies which we have made in the past would indicate that the average life of a single-family residence is approximately 85 years.* By this, of course, I do not mean that all houses reach this age, as some are torn down to make way for street widenings, parks, schools, and playgrounds, or may burn down within the first 10 years of their lives. On the other hand, many houses reach an age very much greater than this, a fact which anyone in New England could substantiate. A well-maintained house, which has been well built, can be kept in active service, insofar as its physical condition is concerned, until such time as improvements in design and equipment have made the old building so obsolete that modernization would not be justified.

If it is true that the average life expectancy of a house is around 85 years, the amount of demolition which we can expect will depend to a large extent upon the number of houses which were built about 85 years ago. As most of our cities were quite small 85 years ago, we have relatively few buildings in the average city which are reaching the 85-year-old mark each year.

There are no reliable figures in the census on the number of new dwelling units which were built in the early period of the United States, but working from the population and family figures, I have arrived at the following approximations. In 1910 there were in the urban areas of the United States a maximum of 6,700 family accommodations reaching the 85-year-old mark each year. This was increasing until 1920, when the maximum reached 11,500 units per year. By 1930 it reached 12,000; by 1940, 39,000; and by 1950, 76,000. By 1960 it will reach 136,000; by 1970, 164,000; by 1980, 201,000; by 1990, 289,000; by the year 2000, 304,000; and by 2010, 457,000 units per year. If this is any measure of the replacement market, it can be seen that from 1950 to 1960, the replacement

*See "The Probable Life of Single-Family Residences," January 1953 Appraisal Bulletin.

market is almost doubling, and there will be additional sizable increases each year in the foreseeable future.

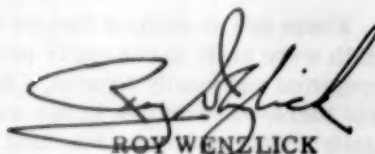
As our cities in the United States get older, a larger and larger number of buildings must be replaced, and so over a long period of years it is inevitable that the demolition rate will increase.

On the same chart on which I have shown the number of persons reaching 35 years of age, I have charted these approximations of buildings which must be replaced due to age.

Demolition figures are not too accurate, but estimates are available from 1910 to 1940, and for each year these figures are very much higher than the figures I have shown on this chart. This would indicate that we could expect more demolitions than our line would show. It seems to me, however, that the general trend of this line must be assumed to be strongly up during good and bad years in the future.

Increased demolitions will offset, to some extent, the drop in the number of persons 35 years of age. I think that the effect of this drop in 35-year-old individuals will be offset still further by the continuing increase in the average purchasing power per family. As a larger number of families get out of the brackets where there is no discretion on the use of their purchasing power, and get to the point where they have a sufficient surplus to choose their investments and purchases, the demand for housing will be increased.

While this chart would advise caution in the period ahead, it would also indicate that a large drop in new construction is not necessarily certain. With the revisions in the 1956 Housing Act, liberalizing FHA insurance, and the probability that financing will become easier late this fall or winter, there is still some hope for a million-housing-accommodation year in 1957.



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